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December 11, 2012

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

**APPROVAL OF SOLE SOURCE PHARMACEUTICAL REVERSE
DISTRIBUTION
SERVICES AGREEMENT
(ALL SUPERVISORIAL DISTRICTS)
(3 VOTES)**

SUBJECT

Request approval to execute a Sole Source Agreement with EXP
Pharmaceutical Services Corporation for pharmaceutical reverse distribution
services.

IT IS RECOMMENDED THAT THE BOARD:

1. Authorize the Director of Health Services (Director), or his designee, to execute an Agreement, substantially similar to Exhibit I, with EXP Pharmaceutical Services Corporation (EXP), effective upon Board approval through May 31, 2015, for pharmaceutical reverse distribution services for County pharmacies, as listed in Attachment A.
2. Delegate authority to the Director, or his designee, to exercise a month-to-month extension option, not to exceed twelve months, through May 31, 2016, subject to review and approval by County Counsel, and notification to the Board and the Chief Executive Office.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

Approval of the first recommendation will allow the Director, or his designee, to execute an Agreement with EXP, substantially similar to Exhibit I, to provide pharmaceutical reverse distribution services to County pharmacies.

EXP has agreed to execute an Agreement with Los Angeles County for pharmaceutical reverse distribution services at the same applicable rates under the Novation Agreement due to DHS' participation with University Health Systems Consortium Services (UHCS).

In November of 1997, the Board of Supervisors authorized DHS to participate in the University Health Systems Consortium Services (UHCS) group purchasing organization when the County would achieve cost savings by purchasing medical, surgical, laboratory and pharmaceutical equipment and supplies through UHCS' commodity agreements established by Novation. EXP was selected through a Novation competitive solicitation. DHS reviewed and analyzed the Novation solicitation Agreement for pharmaceutical reverse distribution services and determined that the County would not be able to achieve a better result or cost savings by soliciting for these services on its own.

Basic pharmaceutical reverse distribution services provided by EXP include, but are not limited to: 1) sorting pharmaceuticals by manufacturer, lot number, and expiration date; 2) generating return inventory reports and all necessary DEA forms; 3) providing all packaging materials and the boxing, packaging, and mailing/shipping of pharmaceuticals for return shipment to each manufacturer; 4) preparing returned drug summary reports with anticipated return value/credit; and 5) disposing of all non-returnable pharmaceuticals/drugs, upon request.

Implementation of Strategic Plan Goals

The recommended action supports Goal 3, Integrated Services Delivery, of the County's Strategic Plan.

FISCAL IMPACT/FINANCING

The County pharmacies will receive credits and partial refunds for pharmaceuticals that are returned to the manufacturer for redistribution. The only compensation EXP will receive for these services is the percentage withheld from the refunds received from pharmaceutical manufacturers. Accordingly, this Agreement does not increase the Department's expenses.

All services associated with the reverse distribution activities provided by EXP will be deducted from the manufacturers' credit compensation designated for each individual County pharmacy operation, listed on Attachment A.

EXP will receive 5.5 percent of the total refund received from pharmaceutical/drug manufacturers by participating County pharmacies, and \$0.49 per pound for disposal of non-hazardous waste and \$2.25 per pound for disposal of hazardous waste for the pharmaceutical/drug products that do not qualify for credit and cannot be reverse distributed.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Los Angeles County pharmacies must order pharmaceutical products in large quantities and maintain par levels of pharmaceuticals at all times to properly serve the patients and for contingency purposes at each of its locations. This includes maintaining pharmaceuticals on hospital wards, clinics, and outpatient facilities. Such large quantities of pharmaceutical stock need to be regularly monitored and adjusted to optimize pharmaceutical par levels without exceeding packaging expiration dates and thereby causing the pharmaceuticals to become non-dispensable.

On April 20, 2006 your Board approved an Agreement with EXP to provide County pharmacies with pharmaceutical reverse distribution services, effective July 1, 2006 through June 30, 2011 and subsequently extended through June 30, 2012. The pharmaceutical reverse distribution services Agreement with DHS expired June 30, 2012. The execution of a new agreement was delayed due to the completion of the Novation solicitation.

Under the Controlled Substance Act of 1970, the Drug Enforcement Agency (DEA) assigned numbers to drugs based on the amount of narcotic, or non-narcotic-like substances, present in a drug and its level of habit forming or addicting propensities. The scheduled numbers are "I" through "V" with "II" being the strongest and "I" being illegal. The handling of scheduled drugs requires a DEA license and the use of special control and inventory procedures prescribed by federal and state regulations. (Absence of such numbers on drug labels renders the drug non-scheduled [non-controlled] which can be handled and processed without DEA restrictions). EXP is a DEA-registered reverse distributor, licensed to handle all Scheduled (I through V) drugs and controlled substances, and also possesses other related licenses and permits (i.e., Environmental Protection Agency license, California Department of Health Services permit, and Weight master license) required to provide pharmaceutical reverse distribution services (including non-returnable pharmaceutical/drug products).

Some non-returnable pharmaceuticals are considered pharmaceutical medical waste (divided into non-hazardous waste [usually non-scheduled pharmaceutical] and hazardous waste [usually scheduled/controlled pharmaceutical]). However, many pharmaceuticals are returnable for credit or replacement.

The County will receive credits and partial refunds for pharmaceutical that are returned to the manufacturer for redistribution. The only compensation to EXP for these services is the percentage withheld from the refunds received from pharmaceutical manufacturers. Accordingly, this Agreement does not increase the Department's expenses.

County pharmacies will have the option to use EXP to directly dispose of both non-hazardous and hazardous pharmaceutical medical waste under this Agreement. EXP offers a more secure method of disposal than using the current medical waste contractors, especially when disposing of scheduled/controlled pharmaceuticals/drugs. EXP will only dispose of pharmaceutical medical waste that is a by-product of reverse distribution process.

The Agreement has been approved as to form by County Counsel.

CONTRACTING PROCESS

Not applicable.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

Approvals of the recommended actions will allow pharmaceutical reverse distribution services to continue and provide County pharmacies with increased savings.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mitchell Katz". The signature is fluid and cursive, with the first name "Mitchell" written in a larger, more prominent script than the last name "Katz".

Mitchell H. Katz, M.D.
Director

MHK:rb

Enclosures

c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors